

# Economics of European and International Integration

## Fall 2015/2016

### Assignment: Due on December 14th 2015

#### General information

This problem set MUST be solved individually. Each student MUST turn in the copy of the solution on paper support. Do not forget to identify at the beginning of each page. There are not specific requirements about the format (font, lines etc) of the document students are expected to turn in.

## 1 Exercise #1

Let us consider a framework *à la* Krugman (1991 or 1999) with two regions (North and South). We assume we have a group of perfectly mobile firms and mobile workers. Only farmers are immobile, and we assume they equally spread across the territory. Consider the case of one firm which would like to open a second plant. Transport costs exist but we do not know their level. In this circumstances,

1. If all firms have a single plant in the South, what is optimal for your firm ?
2. Suppose that all firms have two plants, one in each location: what is optimal for your firm ?

## 2 Exercise #2

(a) When the Single Market was launched, European leaders asserted that it would improve the competitiveness of the European firms. Is it true? Discuss your answer.

(b) How could you explain the creation of big national or transnational corporations (such as Vodafone)? Discuss with a graph, if appropriate.

## 3 Exercise #3

Outline the structure and the evolution of the EU regional policy.

1. Are they successful?
2. European countries become more specialized because of the integration process. Is it possible to design a European policy to stop this specialization process?
3. Do European territories experience a convergence process ?

Discuss with data when appropriate.

## 4 Exercise #4

One of the immediate consequences of opening the borders between the East and West Germany was the potential for migration between the two regions. Because of a more productive capital stock and more know-how, wages in the West were about three times as much as those in the East. Consequently, many East Germans moved to West. What are the consequences for this migration for real wages (a) in West Germany, (b) in East Germany? (c) for the employment in the two regions? Can you explain why West German trade unions were eager to organize their comrades in the East?